

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:PSI:B3

PLR-103661-16

Date:

March 21, 2016

Legend

X =

Y =

A =

B =

C =

D =

E =

Trust =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Dear :

This letter responds to a letter dated January 21, 2016, submitted on behalf of X by its authorized representatives, requesting a ruling under § 1362(f) of the Internal Revenue Code (Code).

Facts

The information submitted states that X was incorporated under the laws of State on Date 1. On Date 2, X elected on to be an S corporation effective Date 1. However, A, B, C, and D failed to consent properly to X's S corporation election. Accordingly, X's S corporation election was ineffective.

In addition, on Date 3, X entered into a Common Share Purchase Agreement for the sale of common stock of X to Y, an ineligible shareholder under § 1361(b)(1). The sole member of Y is Trust, an eligible shareholder pursuant to § 1361(c)(2)(A)(i). The grantor and trustee of Trust is E. On Date 4, X, Y, and E, as trustee for Trust, entered into a First Amendment to Common Shares Purchase Agreement which provided that Trust was substituted for Y as the purchaser of X shares, effective Date 3.

X represents that there was no tax avoidance or retroactive tax planning involved in the failure of A, B, C and D to properly execute X's Form 2553 and in the transfer of shares of X to Y. In addition, X and its shareholders agree to make any adjustments consistent with the treatment of X as an S corporation as may be required by the Secretary. X also represents that X and all its shareholders have filed consistently with X being treated as an S corporation. In addition, X represents that all items allocable to the shares originally purchased by Y were allocated to and reported by Trust, an eligible shareholder.

Law and Analysis

Section 1361(a)(1) provides that the term "S corporation" means, with respect to any taxable year, a small business corporation for which an election under § 1362(a) is in effect for such year.

Section 1361(b)(1)(B) provides that the term "small business corporation" means a domestic corporation that is not an ineligible corporation and that does not, among other requirements, have as a shareholder a person (other than an estate, a trust

described in § 1361(c)(2), or an organization described in § 1361(c)(6)) who is not an individual.

Section 1361(c)(2)(A)(i) provides that, for purposes of § 1361(b)(1)(B), a trust all of which is treated (under subpart E of part I of subchapter J of chapter 1 of the Code) as owned by an individual who is a citizen or resident of the United States may be a shareholder.

Section 1362(a)(1) provides that, except as provided in § 1362(g), a small business corporation may elect, in accordance with the provisions of § 1362, to be an S corporation.

Section 1362(d)(2)(A) provides that an election under § 1362(a) is terminated whenever (at any time on or after the first day of the first taxable year for which the corporation is an S corporation) such corporation ceases to be a small business corporation. Section 1362(d)(2)(B) provides that any termination under § 1362(d)(2)(A) is effective on and after the date of cessation.

Section 1362(f) provides that if (1) an election under § 1362(a) or § 1361(b)(3)(B)(ii) by any corporation (i) was not effective for the taxable year for which made (determined without regard to § 1362(b)(2)) by reason of a failure to meet the requirements of § 1361(b) or to obtain shareholder consents, or (ii) was terminated under § 1362(d)(2) or (3) or § 1361(b)(3)(C); (2) the Secretary determines that the circumstances resulting in such ineffectiveness or termination were inadvertent; (3) no later than a reasonable period of time after discovery of the circumstances resulting in such ineffectiveness or termination, steps were taken so that the corporation for which the election was made or the termination occurred is a small business corporation or a QSub, as the case may be, or to acquire the required shareholder consents; and (4) the corporation for which the election was made or the termination occurred, and each person who was a shareholder of the corporation at any time during the period specified pursuant to § 1362(f), agree to make the adjustments (consistent with the treatment of the corporation as an S corporation or a QSub, as the case may be) as may be required by the Secretary with respect to this period, then, notwithstanding the circumstances resulting in such ineffectiveness or termination, the corporation shall be treated as an S corporation or a QSub, as the case may be, during the period specified by the Secretary.

Conclusion

Based solely on the facts submitted and representations made, we conclude that X's S corporation election was ineffective on Date 1 as a result of the improper consent to X's S corporation election. We further conclude that the ineffectiveness of X's S corporation election constituted an inadvertent invalid election within the meaning of § 1362(f). In addition, because X had an ineligible S corporation shareholder on Date 3,

we conclude that X's S corporation election would have terminated on Date 3 had X's S corporation election been effective on Date 1. We further conclude that the termination of X's S corporation election on Date 3 was inadvertent within the meaning of § 1362(f). Consequently, under § 1362(f), X will be treated as an S corporation from Date 1 and thereafter provided that X's S corporation election was otherwise valid and not otherwise terminated under § 1362(d).

As a condition of the rulings, A, B, C and D must sign written statements as described in § 1.1362-6(b)(1) consenting to X's S corporation election effective Date 1. The written statements must be filed with the appropriate service center within 120 days from the date of this letter, indicating that the statements are to be associated with X's originally filed Form 2553.

Except as specifically ruled above, we express or imply no opinion concerning the federal tax consequences of the facts described above under any other provision of the Code, including whether X was otherwise a valid S corporation.

This ruling is directed only to the taxpayer that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited for precedent.

Pursuant to a power of attorney on file, we are sending a copy of this letter to X's authorized representatives.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the rulings requested, it is subject to verification on examination.

Sincerely,

Bradford R. Poston
Senior Counsel, Branch 3
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2):

Copy of this letter

Copy for §6110 purposes

PLR-103661-16

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cc: